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Savills World Research
Shanghai

Briefing
Retail sector

November 2016

Image: 8 Seconds, Huaihai Road (M)

SUMMARY

Mature retail assets highly sought after by international investors, as professional operators helped achieve stable rental growth despite challenging market conditions.

- Retail sales grew by 7.9% year-on-year (YoY) in the first eight months of 2016, 0.1 of a percentage point (ppt) slower than the same period in 2015.
- Three projects held soft openings in the third quarter, adding a total retail GFA of 214,100 sq m to the market.
- First-floor shopping mall rents in prime retail areas increased by 0.3% quarter-on-quarter (QoQ) to an average of RMB50.2 per sq m per day, while non-prime areas increased by 0.1% QoQ to RMB16.9 per sq m per day.
- Vacancy rates increased by 0.7 of a ppt to 6.9% in prime retail areas, while they fell 0.3 of a ppt to 9.2% in non-prime retail areas in the third quarter.
- Eight projects, accounting for approximately 600,000 sq m of new supply, are expected to launch in the remainder of the year.

"Rising vacancy rates in prime retail areas are forcing landlords to adopt and create more innovative and interesting concepts to enrich the consumer experience and distinguish themselves from decentralised malls."
James Macdonald, Savills Research

Prime areas

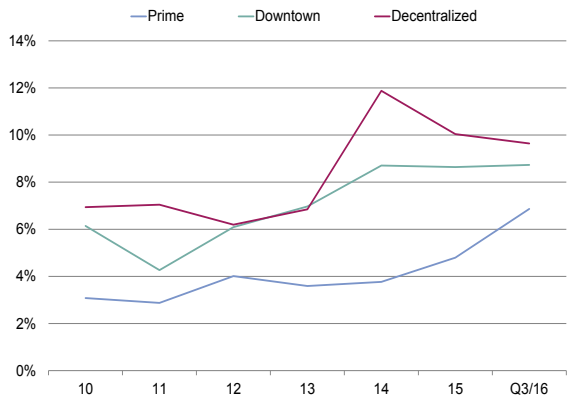
Vacancy rates in prime retail areas increased for the eighth consecutive quarter, reaching 6.9% in Q3/2016. Nearly half of the projects tracked in the prime retail areas recorded an increase in vacancy rates in the third quarter. The increase was primarily caused by the short-term period of replacement of existing tenants with new brands, as well as the reconfiguration or repositioning of sizeable components of other malls. However, a small number of malls are finding it increasingly difficult to find tenants, meaning that some units might be left vacant for a prolonged period of time.

An increase in the number of large, high-quality malls in non-prime and suburban locations has made it harder for a number of older malls in prime areas to attract leading retailers; those they do manage to attract are very common within the market. Though street-front units are still highly sought after by tenants, those with poorer visibility at the back of malls and in the mid-zone are a different matter. As consumers demand more amusement and novelty from their retail experience, traditional malls will not only need to adjust their tenant mixes but also introduce more novel and exciting concepts in order to bring back shoppers.

Thanks to the stable performance of benchmark projects, first-floor shopping mall rents in prime retail areas increased by 0.3% QoQ to an average of RMB50.2 per sq m per day.

GRAPH 2

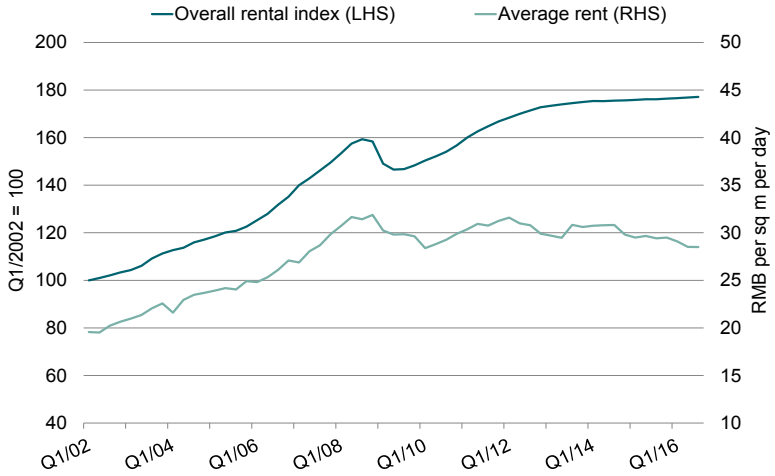
Vacancy rates, 2010–Q3/2016



Source: Savills Research

GRAPH 1

Retail rent and index, Q1/2002–Q3/2016



Source: Savills Research
Note: Rent is based on affordable rents of fashion and accessories tenants on the first floor.

New brands, especially accessories, with greater affordability supported headline rents in prime retail areas. Didier Dubot opened its first store in Raffles City and will open another in iapm. I-Primo opened first store in Hong Kong Plaza, while also renovating its second store in Grand Gateway.

On Huaihai Road (M), 8 seconds opened its first store in China. The 3,500-sq m store is one of the largest flagship stores to open in recent years, a similar size to Muji on the opposite side of the road. 8 seconds sells a wide range of goods, including apparel, accessories, stationery and nail products.

Non-prime areas

Following the addition of 302,000 sq m of new supply in the first half of the year, non-prime areas received an additional 214,100 sq m of new supply in the third quarter, including Qibao Powerlong City Plaza (Qibao), The Mall (Jinqiao Industrial Park) and Bailian Shiji Shopping Mall (Zhuyuan). While some of the projects completed in 2016 may be struggling to fill units, the overall vacancy in non-prime areas fell 0.3 of a ppt QoQ to 9.2%, down 0.4 of a ppt since the end of 2015.

Qibao, home to Powerlong's new project, is one of the earliest decentralised locations to develop its retail market. Benefitting from the master planning of adjacent Hongqiao Transportation Hub and only 5km away from the railway station and airport, the area has seen a surge in retail development in recent years. Within 3 km of the plaza, four new projects, each with over 100,000 sq m retail GFA, will open in the coming two years, namely Vivo City, MixC, Vanke Mall and Aegean Mall.

In Pudong's Zhuyuan area, the Bailian Shiji Shopping mall (formerly known as Century Metropolis) launched onto the market at a very opportune time, given the fact that many of the competing established projects are currently undergoing substantial renovation or repositioning. The project is accessible via Century Avenue Station (Metro line 2/4/6/9). Muji, Nike and Adidas have all taken space over 600 sq m, while notable non-fashion tenants include Yanjiyou Bookstore, The Master Handmade, Daiso and Hachimori (their first store in Pudong).

The project, however, still faces competition, with two new projects and the renovated Nextage mall (each with over 100,000 sq m of retail GFA) all scheduled to launch in the next two years within 1km of the project. The two new projects include Century link (directly opposite the mall) and Pudong Financial Square.

Investment

Two retail assets were transacted in the third quarter. Both deals were concluded by overseas investors,

an indication of sustained optimism in the long-term growth potential of Shanghai's retail market.

An 80% stake of Life Hub @ Jinqiao, a mature asset located in decentralised Pudong, was sold by Keppel Land to Chongbang, with a total consideration value of RMB3.4 billion. Chongbang is the owner of the remaining 20%. Mature retail assets have always been highly sought after but rarely available in the investment market. Established and successful retail assets will tend to sell at a significant premium to market, though a professional management team will still help to generate stable growth of rental revenues.

The 33,000-sq m, newly-completed but as yet unopened, Haoshi Plaza, located in the suburban district of Jiading, was sold by Mitsui Real Estate and Marubeni to Keppel Land at RMB500 million in the third quarter. As opportunities to acquire retail assets in downtown areas are incredibly rare, and a number of projects are completing in decentralised areas, investors are showing growing interest in opportunities presented by projects in emerging areas, with the potential to establish a sub-commercial centre.

Project focus

Paradise Walk (Hongqiao)

Paradise Walk (Hongqiao) is Longfor's first mixed-use project in Shanghai. The retail component of the project includes a 145,000-sq m enclosed shopping mall and approximately 59,000 sq m of street stores. Some of these street store units have been placed on the strata-sale market, with asking prices starting at RMB50,000 per sq m. The mixed use development also includes 26,700 sq m of hotel space and 94,400 sq m of office space.

As Hongqiao Transportation Hub's largest retail project for the foreseeable future, Paradise Walk is positioned as a super-regional retail destination for residents of west Shanghai as well as those working in the Hongqiao Transportation Hub business area.

The project is situated 700m away from Hongqiao Railway Station metro station (line 2/10). Shoppers can access the mall directly from the metro station via an underground walkway, or via a raised walkway linked to The Hub, a 124,600-sq m shopping mall adjacent to Paradise Walk.

The project is currently pre-leasing and is expected to open towards the end of 2016.

Please contact us for further information

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